To obtain further information on any of the issues set out in this document e-mail the relevant **Issue Number(s)** to: manuals@ons.gov.uk.

Proposed list of SNA93 issues considered important to U.K. economy

Issue No.	Issue	Description
UKSNA1	Pension schemes in macro-economic statistics	In the 1993 SNA, promises to pay future pension benefits are not recognized as liabilities of social security schemes and unfunded employer schemes. The review will investigate the analytical relevance of recording these liabilities in the national accounts and, if appropriate, formulate recommendations regarding their valuation and measurement. The review will also formulate proposals to reconcile the recommendations of the 1993 SNA and the IMF Government Finance Manual regarding the treatment of unfunded employer pension schemes.
UKSNA2	Employee stock options	Employee stock options are a common tool used by companies to motivate their employees. Given that the 1993 SNA does not provide guideline to this issue, the question raised is whether stock options should be considered as compensation of employees and therefore as a cost to employers. Experts at the OECD meeting on national accounts in October 2002 arrived at the consensus to include employee stock options in compensation of employees. Further harmonization with international business accounting standards is required.
UKSNA3	Non-performing loans	The treatment of non-performing loans is a topic on which the Thai authorities had asked the ISWGNA for clarification as to what extent unpaid interest should be accrued (considering that the financial intermediation services indirectly measured on such interest may affect the GDP). The purpose of the review is to determine what criteria should be applied to the writing-off of non-performing loans and to make sure that they are consistent with the other major macro-economic statistical systems (balance of payments, government finance, and money and banking statistics).
UKSNA4	Insurance and re-insurance	This issue is devoted to the measurement of non-life insurance services, with a special focus on the treatment of catastrophic losses. The output of insurance services as calculated using the 1993 SNA algorithm depends on the balance of premiums to claims (on an accrual basis) and can therefore be extremely volatile (even negative) following major catastrophes. The massive claims generated by the 11 September terrorist attack, is a recent example. It had impacts on GDP and balance of payments (reinsurance). The objective of the review is to propose measures that would be more consistent with the perception of production in this activity. In particular, medium to long-term aspects of non-life insurance are to be taken into consideration.
UKSNA5	Measurement of financial intermediation services and portfolio management	This issue is devoted to the measurement of the output of financial intermediation services and portfolio management in the national accounts. The business of financial corporations has undergone a structural transformation towards a rising importance of the portfolio management of financial assets. This generates holding gains and losses, that, typically, national accounts exclude from the production boundary and therefore income. The review will consider whether and how the production boundary can be adapted to this rising activity, and how this could influence income.

To obtain further information on any of the issues set out in this document e-mail the relevant **Issue Number(s)** to: manuals@ons.gov.uk.

Issue No.	Issue	Description
UKSNA6	Treatment of nominal holding gains and interest on financial assets under high inflation	Peter Hill and Andre Vanoli have written to the ISWGNA, with regard to the treatment of nominal holding gains and interest on financial assets under conditions of high inflation, as described in the 1993 SNA Chapter XIX, Annex B and subsequently in the OECD publication "A Manual on Inflation Accounting" written by Peter Hill along a position different from that taken in Annex B in the 1993 SNA. Andre Vanoli has written a paper for discussion at the 1998 IARIW conference which raised issues regarding the inflation accounting treatment. Peter Hill has responded with a paper also submitted to the 1998 IARIW conference, essentially giving counter-arguments and in turn raising issues regarding Annex B. The EDG on this issue did not arrive at a distinct conclusion. This issue will be put forward to the Advisory Expert Group on National Accounts.
PART II: NON-FINANCIAL ISSUES		
UKSNA7	Research and development (R&D)	The 1993 SNA treats research and development (R&D) expenditures of market producers as production of a notional establishment and intermediate consumption of other establishments of the same enterprise while R&D expenditures by non-market producers are recorded directly into intermediate consumption. Questions have been raised whether R&D costs should be capitalized. If that solution is chosen, should expenditure on basic research be treated similarly as expenditures for applied research and experimental development? Should the R&D activities of non-market producers be treated as for market producers?
UKSNA8	Patented entities/Research and development expenditure	In the system patented entities are treated as non-produced intangible assets. However, payments received from patent users are by convention recorded as output of services similar to rentals from lease of fixed assets. This is contrary to other non-produced assets such as land. Should R&D costs and the original derived from it be linked or capitalized separately? Furthermore, how should originals be valued and what types of price indexes should be used to deflate the output of services from patented entities?
UKSNA9	Treatment of originals and copies	How should expenditures on originals and copies be recorded. ▪ Should both be recorded as expenditure (on new goods) on the basis that originals are distinct from copies; or ▪ should originals be considered as being analogous to a ‘stock’ of copies, and so expenditure on a copy partly (or mostly) reflects a sale of an existing good? ▪ How should the transactions in copies be recorded?

To obtain further information on any of the issues set out in this document e-mail the relevant **Issue Number(s)** to: manuals@ons.gov.uk.

Issue No.	Issue	Description
UKSNA10	Capital services	Capital services provided by fixed assets to the production process are not explicitly defined by the 1993 SNA. The OECD's **Measuring Capital** defines capital inputs as the actual or estimated pure economic rent payable; that is, by the sum of depreciation and the capital, or interest, costs. There is a need for a definition of capital services in the SNA. ▪ Should it be rental or pure economic rent? Given the latter definition, the capital services of rented produced fixed assets are only part of the rental paid by the user to the owner (the remainder being the costs incurred by the renter in providing the service), and which appear in the SNA as intermediate input; and likewise, the capital services of rented non-produced assets are only a part of the rent paid, and appear in the SNA as part of gross operating surplus. For own-use fixed assets, capital services appear as part of the gross operating surplus. ▪ How should capital services be shown in the accounts for productivity analysis purposes? ▪ Should the treatment of capital services be introduced into the core of the SNA or be treated in a satellite account?
UKSNA11	Cost of ownership transfers	The review was initiated by a request from the Singapore Statistical Office and its principal focus has been whether the COT of fixed assets should be expensed or capitalized. The review has since broadened to include issues such as, ▪ if COT is to be capitalized what should be the service life, ▪ how should we treat COT when the underlying asset is sold by the original owner, and, by extension, ▪ how should we treat the termination costs of the underlying asset.
UKSNA12	Government-owned assets	Services from government-owned assets, which are used in the production of government services are reflected in the output of the government services only as consumption of fixed capital. This means that neither return on capital to these assets nor opportunity cost is recognized. Should the SNA treatment of imputed output to the general government activity remain the same or should capital services be included?
UKSNA13	Military weapons	The 1993 SNA divides military assets into those that can be used for civilian purposes and those that can only be used for military purposes. The former are treated as gross capital formation, the latter as intermediate consumption. This treatment does not provide an appropriate accounting system for existing weapons as weapons that have already been expensed can actually be taken out of stock for use or for exports and would have to be balanced by a negative component in government final consumption. Should the line between gross capital formation and intermediate consumption be drawn differently?
UKSNA14	Treatment of land	The SNA currently records improvements to land as gross fixed capital formation, but in the balance sheet such improvements are included with land itself – a non-produced asset. Should land be split into two, with one part recorded as a fixed asset and the other part recorded as a non-produced asset? If so, how should the separation be made? One option is to distinguish between land that is in, or nearly in, its natural state as a non-produced asset and the remainder as a fixed asset. Another option is to separate land from the improvements made to it, and record the former as a non-produced asset and the latter as a fixed asset.

To obtain further information on any of the issues set out in this document e-mail the relevant **Issue Number(s)** to: manuals@ons.gov.uk.

Issue No.	Issue	Description
UKSNA15	Contracts and leases of assets	Contracts and leases of tangible assets are defined by the SNA. However, the treatment of intangible non-produced assets is not clarified. These assets comprise governmental tradable leases/licences such as casino, taxi permit, foreign trade licenses and emission permits, non-governmental tradable contracts (option to buy not yet produced assets, contracts on authors, football players and other performers, etc.), subcontracting to third party of tradable leases/contracts/licenses, franchises and goodwill. ▪ Should and under what conditions should a lease/license/contract on non-produced assets be treated as a sale or rent of the asset? ▪ Should the criteria provided by the ISWGNA on mobile phones be applied or should they be further elaborated? ▪ Should a legal construct be recognized as a non-produced asset when it is signed? ▪ How should one treat a change in the market prices of a lease or contract when its value is different from the discounted sum payable? ▪ If it is recognized, should it be treated as a financial derivative or a non-produced asset? ▪ Should the concept of financial leases be broadened to include assets that are not leased for their entire service life?
UKSNA16	Obsolescence and depreciation	Consumption of fixed capital (i.e. depreciation) is defined in the 1993 SNA in general terms as the decline, during the course of the accounting period, in the current value of the stock of fixed assets owned and used by a producer as a result of physical deterioration, normal obsolescence or normal accidental damage. It is referred to as time series depreciation because it is defined in terms of the change in value of an asset over time. An alternative definition, called cross section depreciation, is defined to be the difference in value of two assets that are identical, except one is older than the other by the same length of time as the accounting period. Cross section depreciation is used in the derivation of estimates of multifactor productivity, and it seems that in practice, most, if not all, countries estimating depreciation are in fact applying this definition. Should time series depreciation continue to be the one defined in the SNA and, if so, how should it be applied?
UKSNA17	Build-Own-Operate-Transfer (BOOT) schemes	BOOT is a scheme in which a private enterprise builds or purchases a facility that provides services for the general public (such as toll booth, highway, prisons or electric generating facility) at its own expenses in return for the right to operate it and to charge a regulated fee that allows it to earn a net profit for an agreed length of time. At the end of the period, the ownership of the facility is transferred to the government without compensation. Should SNA provide guidance to the treatment of the various BOOT schemes?